

to be a sound investment that satisfies fiduciary standards. Therefore, the trust's sole investment in this corporation is not expected to adversely affect the interest of either the annuitant or the remainder beneficiary. Considering the 6 percent annuity payout rate and the 8.2 percent section 7520 interest rate, the trust corpus is considered sufficient to pay this annuity for the entire 25-year term of the trust, or even indefinitely. Although it appears that neither beneficiary would be able to compel the trustee to make the trust corpus produce investment income, the annuity interest in this case is considered to be an ordinary annuity interest, and the standard section 7520 annuity factor may be used to determine the present value of the annuity. In this case, the section 7520 annuity factor would represent the right to receive \$1.00 per year for a term of 25 years.

Example 2. Terminal illness. The taxpayer transfers property worth \$1,000,000 to a charitable remainder unitrust described in section 664(d)(2) and § 1.664-3. The trust provides for a fixed-percentage 7 percent unitrust benefit (each annual payment is equal to 7 percent of the trust assets as valued at the beginning of each year) to be paid quarterly to an individual beneficiary for life and for the remainder to be distributed to a charitable organization. At the time the trust is created, the individual beneficiary is age 60 and has been diagnosed with an incurable illness and there is at least a 50 percent probability of the individual dying within 1 year. Assuming the presumption in paragraph (b)(3) of this section does not apply, because there is at least a 50 percent probability that this beneficiary will die within 1 year, the standard section 7520 unitrust remainder factor for a person age 60 from the valuation tables may not be used to determine the present value of the charitable remainder interest. Instead, a special unitrust remainder factor must be computed that is based on the section 7520 interest rate and that takes into account the projection of the individual beneficiary's actual life expectancy.

(5) *Additional limitations.* Section 7520 does not apply to the extent as may otherwise be provided by the Commissioner.

(c) *Effective date.* Section 1.7520-3(a) is effective as of May 1, 1989. The provisions of paragraph (b) of this section are effective with respect to transactions after December 13, 1995.

[T.D. 8540, 59 FR 30150, June 10, 1994, as amended by T.D. 8630, 60 FR 63915, Dec. 13, 1995]

§ 1.7520-4 Transitional rules.

(a) *Reliance.* If the valuation date is after April 30, 1989, and before June 10, 1994, a taxpayer can rely on Notice 89-24, 1989-1 C.B. 660, or Notice 89-60, 1989-1 C.B. 700 (See § 601.601(d)(2)(ii)(b) of this chapter), in valuing the transferred interest.

(b) *Effective date.* This section is effective as of May 1, 1989.

[T.D. 8540, 59 FR 30150, June 10, 1994]

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This section lists captions that appear in §§ 1.7701(l)-1 and 1.7701(l)-3:

§ 1.7701(l)-1 Conduit financing arrangements.

§ 1.7701(l)-3 Recharacterizing financing arrangements involving fast-pay stock.

- (a) Purpose and scope.
- (b) Definitions.
 - (1) Fast-pay arrangement.
 - (2) Fast-pay stock.
 - (i) Defined.
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 - (3) Benefited stock.
 - (c) Recharacterization of certain fast-pay arrangements.
 - (1) Scope.
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 - (ii) Relationship between benefited shareholders and corporation.
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 - (iii) Transactions affecting benefited stock.
 - (A) Sale of benefited stock.
 - (B) Transactions other than sales.
 - (iv) Adjustment to basis for amounts accrued or paid in taxable years ending before February 27, 1997.
 - (d) Prohibition against affirmative use of recharacterization by taxpayers.
 - (e) Examples.
 - (f) Reporting requirement.
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 - (i) In general.
 - (ii) Controlled foreign corporation.
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 - (iv) Passive foreign investment company.
 - (2) Statement.
 - (g) Effective date.
 - (1) In general.
 - (2) Election to limit taxable income attributable to a recharacterized fast-pay arrangement for periods before April 1, 2000.